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Tooley, Stuart, Hooks, Jill , & Basnan, Norida (2012) Performance reporting : assessing the annual reports of Malaysian local authorities. *International Journal of Public Administration*, 35(13), pp. 853-863.

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<http://dx.doi.org/10.1080/01900692.2012.684145>

Performance Reporting: Assessing the Annual Reports of Malaysian Local Authorities

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Running title: Malaysian Local Authority Performance Reporting

Keywords: accountability, Malaysia, local authorities, performance

Paper type: Research paper

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Performance Reporting: Assessing the Annual Reports of Malaysian Local Authorities

Abstract

There have been calls for Malaysian local authorities to be more transparent and accountable in the discharge of their functional responsibilities. This study empirically evaluates the extent and quality of current performance reporting by local authorities. The disclosure of relevant information for discharging accountability obligations, as defined by a broad range of stakeholders, falls short of best practice. Therefore, the performance of Malaysian local authorities lacks transparency. The findings could assist in the development of more comprehensive guidelines for local authority reporting and raise awareness of information stakeholders expect to be reported in the context of accountability.

Keywords: accountability, Malaysia, local authorities, performance

Introduction

The Malaysian public sector, at both federal and state level, underwent significant reform during the 1990s (ADB, 2004; Samaratunge and Bennington, 2002). The reforms were underpinned by an emphasis on accountability; an increased concern for performance, efficiency and effectiveness in administration; and implementation of private sector practices in the public sector (Turner, 2002). However, despite the intention of greater accountability to stakeholders there have been increased demands for government departments, and in particular local authorities, to be more transparent in the discharge of their functional responsibilities (Berita Harian, 2005; Buang, 2006; Phang, 2008; The Star, 2005, 2010; Utusan Malaysia, 2008). The demand for more transparency highlights the need for improved performance reporting.

The current reporting requirements imposed on Malaysian local authorities are limited in scope. The Malaysian Local Government Act 1976 (sections 53 and 54) requires the keeping of financial records and reports. However, unlike countries such as New Zealand where the

public sector has a legislative requirement under the Crown Entities Act 2004 to produce not only an annual report but also performance reports, there is no statutory requirement for Malaysian local authorities to externally report on their performance and accomplishments in the delivery of programmes and services. Thus, public accountability is limited. The Federal Treasury has released a series of 'Circulars'¹ (FTC) that are directed at Malaysian statutory bodies and outline minimum disclosure requirements including corporate information, organisation background, chairman's statement, a report on government grants, financial statement analysis, performance reports (reporting on programmes, activities and projects undertaken) and audited financial statements. Although compliance with the FTC is not mandatory for local authorities, Tayib *et al.*, (1999) suggest that the FTC does have some influence over the form and content of local authorities' annual reports as the Auditor General of Malaysia, who audits the majority of local authorities, often refers to the circular for guidance. Nevertheless, the voluntary nature of the FTC has the potential for relevant performance information to be under-reported².

The purpose of this study is to empirically evaluate the extent and quality of performance reporting by a selection of Malaysian local authorities for the period 2007-2009. Annual financial and service report disclosures are assessed in accordance with a disclosure index and compared to stakeholders' expectations of information disclosure. Thus, the research emphasises the public interest aspect of reporting (Cooper and Sherer, 1984) and the importance of providing relevant and meaningful information to stakeholders. We find that the quality of performance reporting of Malaysian local authorities needs to be improved in order to provide sufficient public accountability. In a theoretical sense, we contribute to the literature on performance reporting of public sector entities, and in a practical sense, we provide information to assist local authorities in understanding the information needs of stakeholders and how well those needs are currently being met.

The paper proceeds as follows. The following section locates the study within the prior literature. The research method is described in the third section and is followed by a discussion on the findings. The final section provides concluding comments.

¹ The current circular is the Federal Treasury Circular No. 4/2007: Guidelines for Preparation and Presentation of Annual Reports and Financial Statements of Statutory Bodies.

² The 'broader set of relevant performance information' is not limited to the FTC.

Performance Reporting

The reporting of performance information is an important response to public pressure for accountability as it enables a public sector entity to publicly disclose and be responsible for its actions (IFAC, 2011; OECD, 2004). The discharge of accountability requires transparency (Shende and Bennett, 2004) which can be achieved through reporting (Lee, 2008). In stating the need for accountability and transparency, the International Federation of Accountants (IFAC, 2009) provides two definitions of accountability: a narrow focus which emphasises the responsibility to stakeholders (conformance) and a wider view in which entities are “responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance; and submit themselves to appropriate external scrutiny” (IFAC, 2009, p.20). Thus, within a public accountability framework, accountability and performance reporting are intrinsically linked (Coy *et al.*, 2001). However, at issue, and the focus of this study, is whether the published information a local authority provides, renders it sufficiently accountable. As suggested by Ryan *et al.*, (2002, p.278) “if the degree to which accountability is rendered through annual report disclosures can be reliably measured, then the issues which need to be addressed in order to improve accountability disclosures can be more meaningfully investigated.”

The concept of performance is complex and multi-dimensional (Andrews *et al.*, 2005). Performance has been defined as "the product or results that ensue from the use of delegated resources and powers" (McCrindell, 1994, p.30). The product or result may be referred to as achievements in relation to objectives, plans or intentions (Department of Treasury and Finance of Tasmania, 1997). Performance reporting may focus on goal accomplishment and should also include broad dimensions - the inputs, activities, outputs and outcomes (Wholey, 1999). Therefore, performance reporting as defined by Pollitt (2006, p.39) is "systematic information describing the outputs and outcomes of public programmes and organizations - whether intended or otherwise - generated by systems and processes intended to produce such information." In this respect, performance information is used to make judgements about goal accomplishment and achievements in converting inputs to outputs and outcomes and is not limited to performance indicators or measures. It includes both financial and non-financial aspects of results (achievements), interactions with the public (operations and delivery of goods and services to the public) and costs of the results and interactions (Office of the Auditor General (OAG) of New Zealand, 2002). Financial information is focused on, but not limited to, the financial statements. The non-financial aspect of performance

information covers the key aspects of service performance which include efficiency, quality, equity, effectiveness and value for money (Andrews *et al.*, 2005). Performance information acts as an incentive to management to focus on issues of importance to their stakeholders (Connolly and Hyndman, 2004). Without this information, annual reports play a limited role in discharging accountability (Connolly and Dhanani, 2009).

Prior studies have examined performance reporting by Malaysian government departments (Neilson and Mucciarone, 2007) and the Malaysian public accounts (Nichol and Taylor, 2001). Tayib *et al.*, (1999) studied the financial reporting requirements of Malaysian local authorities and compared them with financial reporting requirements as per the Federal Treasury Circular No. 1, 1988. Their focus was on financial reporting only and the needs of a single stakeholder group – taxpayers. Coombs and Tayib (2000) extended Tayib *et al.*, (1999) to include a comparative study of financial information provided in the published accounts of local authorities in the United Kingdom and Malaysia using a disclosure index based on the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice. We apply a more comprehensive view of performance information which includes financial performance information, performance indicators and other non-financial disclosures of performance. Public sector studies have examined entire annual reports and related the level of disclosure of the reports to accountability (for example, Coy and Dixon, 2004; Coy *et al.*, 2001; Hooks *et al.*, 2002; Nelson *et al.*, 1997; Nelson *et al.*, 2003; Robinson, 2003; Tooley and Guthrie, 2007; Wei *et al.*, 2008). Results from these studies imply that performance information to stakeholders should take into consideration the stakeholders' expectations and needs for assessing the performance and condition of the reporting entity which may be different from the performance information that is perceived as important by the preparers. In this study we assess accountability by applying a disclosure index that is grounded in the information a wide group of stakeholders expect in order to enable them to evaluate and monitor the performance of local authorities.

Research Design

The purpose of this study is to analyse and assess the extent and quality of performance reporting by a selection of Malaysian local authorities. There are 99 local authorities in

Peninsular Malaysia³ made up of 8 city councils/halls, 34 municipal councils and 57 district councils all of which vary in physical size, population and revenue base⁴. Our study focuses on the 42 city councils/halls and municipal councils (almost 43 percent of the Peninsular population reside within these jurisdictions). These are the ‘larger’ local authorities and are therefore likely to have less constraint imposed on the production of an annual report (Boyne and Law, 1991) and to have sufficient resources to prepare a comprehensive report that may comprise an extensive array of both financial and non-financial performance information (Ryan *et al.*, 2002). All of the 42 local authorities are required by the Local Government Act 1976 to prepare and publish annual financial reports. The local authorities can also voluntarily publish additional information and reports, for example, service reports.

In 2005 the Malaysian Federal Government imposed a requirement on its public sector agencies to develop and implement Key Performance Indicators (KPIs). Notably, the reporting of KPI measures and performance would be to the upper management of the agency and to the Federal Government. There was no requirement for the public reporting of KPIs. It was left to individual State Governments to determine if KPIs were to be required of local authorities under their jurisdiction. Although none of the local authorities in our study were required to account and report on KPIs, we were interested to explore whether financial and service reporting post-2005 reflected reporting changes that were occurring elsewhere in the broader Malaysian public sector.

Our study is primarily concerned with those local authorities that published both the mandatory financial report and a voluntary service report in the period 2007-2009. Twenty seven local authorities issued only a financial report and were therefore excluded from the sample. Of the remaining 15 local authorities, 13 published both reports for each of the three years, one published both reports in 2007 and 2008 but not 2009, and one published both reports for 2009 only. Thus, 42 sets of reports were assessed representing five city councils and 10 municipal councils. It is acknowledged that this small sample limits the ability to generalise the findings to a broader population. Nevertheless, the findings provide useful insights into the state of local authority performance reporting in Malaysia at the current time.

A disclosure index was used to determine the extent and quality of Malaysian local

³ There are 149 local authorities across all of Malaysia.

⁴ To be categorized as a municipal council, the population should exceed 100,000 and have annual revenue in excess of MYR 5 million. A city council/hall has a population in excess of 100,000 and annual revenue exceeding MYR 20 million. District councils, being smaller authorities, have a population that is less than 100,000 and annual revenue less than MYR 5 million.

authorities' performance reporting. The disclosure index provides a technique for gathering data and involves codifying actual disclosures in a particular context (i.e. local authority financial and service reports) for the purpose of determining a score that indicates a certain level of disclosure. The score can then be compared with other annual reports from the same sector. A disclosure index has been considered in the literature as a practical and valid research tool (Barako *et al.*, 2006; Schneider and Samkin, 2008; Tooley and Guthrie, 2007) and has a tradition in empirical accounting research (Prencipe, 2004).

The disclosure index used in this study was crafted through a three-step process. First, a draft index of 71 items was developed from a review of the accountability literature (in particular, Banks *et al.*, 1997; Boyne *et al.*, 2002; Clark, 2003; Connolly and Hyndman, 2004; Pollanen, 2005; Ryan *et al.*, 2002; and Tayib *et al.*, 1999). In addition, items were drawn from codes of practice and Treasury guidelines⁵. The draft disclosure index represented information that Malaysian stakeholders may consider necessary in order to assess the performance of the relevant local authority. The draft index was then included in a questionnaire and distributed to stakeholders of local authorities⁶. The stakeholder participants included local authority representatives (employees, managers and councillors), representatives of creditors and state government, and the general public. Analysis of the questionnaire responses provided a refined draft index of items for disclosure which in turn framed a model of best-practice performance reporting. The third step involved a Delphi exercise whereby a panel of 'expert stakeholders'⁷, through an iterative process, reached consensus on information to be disclosed for accountability purposes and on an appropriate weighting of importance for each information item⁸.

The Delphi technique is a research method that has been widely applied as a tool for expert problem solving (Okoli and Pawlowski, 2004). The structured group communication process enables the researcher to engage in situations where some form of human judgemental input is necessary (Rowe and Wright, 1999) as in the development of a consensus of opinion on the

⁵ The Code of Practice for Local Authority Accounting for Great Britain (CIPFA, 1993); Treasury Circular No.4/2000: Guidelines for preparation and presentation of annual reports and financial statements of statutory bodies of Malaysia; and The Public Administration Development Circular No.2/2005: Guidelines to establish key performance indicators and to implement performance measurement in government agencies.

⁶ A total of 1,738 questionnaires were distributed and 666 completed questionnaires were returned.

⁷ The Delphi panel consisted of: an auditor, a creditor, a federal government representative, two managers, a councillor, two state government representatives, an employee, two members from the general public, and an opposition member of the state government.

⁸ Weightings for each information item were provided by the Delphi Panel using the following scale: 0 = unimportant; 1 = minor importance; 2 = quite important; 3 = very important; 4 = extremely important.

weighting of importance used in an accountability index (see, for example, Coy and Dixon, 2004; Hooks *et al.*, 2002). The strength of the Delphi technique as a valid research instrument is reflected in four defining attributes (see, for example, Preble, 1983; Rowe and Wright, 1999): anonymity, whereby 'experts' work independently and express their opinions and judgements privately; iteration which provides opportunity for change in opinion and judgement without fear of losing face amongst other Delphi members; facilitator-controlled feedback that maintains the anonymity of other members' opinions and judgement; and the ability to statistically aggregate a 'group' response to the task at hand (i.e. weighting of importance for the disclosure of specified items). Tersine and Riggs (1976) consider that the anonymity of the process is the key characteristic as participants are less subject to a 'halo' effect whereby highly respected members may influence other members. In addition, the 'bandwagon' effect which encourages agreement with the majority is reduced. Although the Delphi technique is widely used, a key research limitation is its representational accuracy and reliability (Woudenberg, 1991). As a judgement method, the consensus of opinion on the weighting of importance is subject to a collective bias which may not be representative of the wider stakeholder community. As a consequence, the reliability of judgement outcome may be influenced by person- and situation-specific factors which would constitute a limitation of the current study.

The decision to apply a weighting of importance reflects the view that some items for disclosure are more important than others (Raffournier, 1995; Wei *et al.*, 2008) and, as argued by Robbins and Austin (1986, p.420), "conceptually, an analysis that incorporates the importance of individual disclosures is superior to one that does not". Thus, and as used in this study, the disclosure index information items represent the information needs of the stakeholders and the relative importance of those needs (Hooks *et al.*, 2002, Schneider and Samkin, 2008).

Having identified a list of items and their respective weightings, an extra dimension was added to the disclosure index by including criteria for assessing the quality of information disclosed. Disclosure quality has been referred to as the degree of inclusion (Al-Razeen and Karbhari, 2004), completeness or full disclosure (Imhoff, 1992) and comprehensiveness of disclosures (Hooks *et al.*, 2002; Ryan *et al.*, 2002, Wallace and Naser, 1995). Scoring for 'quality' of disclosure is controversial. Botosan (2004) argues that quality, which she motivates as understandability, relevance, reliability and comparability, is immeasurable. Others (e.g. Hasseldine *et al.*, 2005; Toms, 2002) consider that investigating only the volume

of disclosure can be misleading. Our aim was to distinguish between poor and excellent levels of disclosure. Some index items were single-information items, for example, a description of the local authority's area of administration. In this case, if the item was disclosed, the importance weighting was the allocated score; otherwise zero was allocated for non-disclosure of the information item. Other index items required more detail (multiple-information items). Quality criteria were developed based on prior studies (Christiaens and Van Peteghem, 2007; Coy and Dixon, 2004; Hooks *et al.*, 2001; Nelson *et al.*, 2003; Ryan *et al.*, 2002; Tooley and Guthrie, 2007) and professional bodies' recommendations (including Governmental Accounting Standards Board (GASB), 2003; OAG of New Zealand, 2002; and OAG of the United Kingdom, 2000). For example, the item *Summary Facts and Figures* required five separate pieces of information: reference to each service/activity achievement; trends for at least three years; a brief discussion of the trends; a separately titled section; and relevant illustrations. If three of the five items were included a score of 3/5 was allocated. Thus, the final index consisted of a list of information items each with a relative importance weighting and a list of quality criteria used to assess the comprehensiveness of the disclosures.

Each annual report and service report was analysed and the items included in the final disclosure index were scored in accordance with the quality criteria⁹. Appendix A provides extracts from two Local Authorities' reports and the quality criteria applicable to the index item being assessed in order to demonstrate the scoring process that allowed us to differentiate between different levels of disclosure. The allocated score was multiplied by the item's importance weighting to give a compound score consisting of both extent and importance of disclosure. The weighted compound score was calculated in accordance with the following formula:

$$\text{Weighted Compound Score} = \frac{\text{Actual quality criteria score}}{\text{Maximum quality criteria score}} \times \text{weighting of importance}$$

The results are presented and discussed in the next section and focus on the research objective, namely, to assess the extent and quality of performance reporting by a selection of Malaysian local authorities.

⁹ The reports were independently analysed and assessed by two researchers. Any minor differences in scores were discussed and reconciled. A copy of the quality criteria is available from the authors on request.

Findings and Discussion

Quality of Reporting for Individual Items

The following tables compare the mean weighted compound score¹⁰ for extent and quality of disclosure of each index item with its relative weighting of importance as determined by the Delphi Panel. For the purposes of this study, the weighting of importance is used as a proxy of the information needs of stakeholders (Hooks *et al.*, 2002; Schneider and Samkin, 2008). A weighted compound score which is lower than the weighting of importance score is indicative of an information gap. Items that have an information gap exceeding (1.0) present a ‘material difference’¹¹.

(a) Overview and Operational Items

As shown in Table 1, all 21 items presented an information gap of varying magnitude. The item ‘*efforts in generating more revenue*’ had the smallest information gap indicating that the extent and quality of current disclosure was comparable to the perceived importance of such information being disclosed as part of organisational performance reporting. Seven items were assessed with a disclosure score that was not materially different from the level of importance attributed to those items: ‘*area of administration*’; ‘*summary facts and figures*’; ‘*public complaints that have been resolved*’; ‘*acknowledgement from State and Federal Government*’; ‘*efforts in generating more revenue*’; and ‘*activity/programme that involved community participation*’. This indicates that disclosure of these information items is at a level that could be described as sufficient disclosure. Notably, all seven items were considered by the Delphi Panel to be items of information that were ‘very important’ in assessing local authority performance.

¹⁰ The weighted compound score is calculated as the mean score across the three year period 2007-2009 and represents the amount and quality of information disclosed for each item.

¹¹ The Delphi Panel’s weighting of importance score for each index item can be translated into a categorical qualitative measure as follows: 0 < 1.5 = minor importance; 1.5 < 2.5 = quite important; 2.5 < 3.5 = very important; 3.5 < 4.0 = extremely important. An information gap in excess of 1.0 indicates a mean weighted compound score that is different from the weighting of importance score and, therefore, for the purposes of our analysis constitutes a material difference between the information provided and the perceived importance of that information from a stakeholder perspective. Although an information gap of less than 1.0 can also result in a difference in categorical qualitative measure, a minimum information gap of 1.0 compensates for any perceived ‘softness’ between the arbitrary categorical qualitative measures.

Fourteen of the items listed in Table 1 were identified as having a ‘material’ information gap. The Delphi Panel identified these items as ‘very important’ for local authority performance reporting. This indicates that insufficient information is disclosed about these items. ‘*Challenges in undertaking services/activities*’ was assessed as having the greatest disparity between the extent and quality of current disclosure relative to its perceived level of importance for disclosure. Although the Delphi Panel identified this item as ‘very important’ (weighting of 2.71), the weighted compound score (0.21) indicates a major deficiency in the extent and quality of disclosure relative to disclosure expectations.

Of the top four items identified by the Delphi Panel as the most important disclosures for evaluating local authority performance, three items were assessed with a ‘material’ information gap – ‘*statement of objectives*’; ‘*mayor’s/president’s report*’; and ‘*review of operations*’. Notably, these three items reflect the general theory of accountability whereby organisational goals are set and an account is provided as to how well the organisation has performed against those goals and in general. The fourth item – ‘*efforts in generating more revenue*’- reflects a general concern for local authorities to ensure that they have adequate financial resources to deliver the quantity and quality of services demanded by the relevant constituency. Arguably, and with the smallest information gap of all the listed items, the extent and quality of disclosure in this regard is sufficient for accountability purposes.

<Insert Table 1 here>

(b) Non-financial performance items

The reporting of all non-financial performance items was considered by the Delphi Panel to be ‘very important’ (refer Table 2). However, only three items (*‘achievement of specific programmes as ordered by State/Federal Government’*, *‘contracted-out services’*, *‘improvement programme of service delivery systems’*) were assessed as providing sufficient information (extent and quality) relative to the item’s level of importance. Notably, disclosure on *‘improvement programme of service delivery system’* fully met the disclosure expectations. The majority of items were assessed with an information gap that indicated a material difference between the assessed weighted compound score relative to the level of importance of the information indicating that disclosure of non-financial information was insufficient.

<Insert Table 2 here>

Included in the non-financial performance items are seven performance measures. The identification of these measures by local authority stakeholders may have been informed by the implementation of Key Performance Indicators (KPIs) at the Federal public sector level. The disclosure of KPIs potentially provides stakeholders with a greater awareness of the key areas of service performance that the local authority is focusing on; however, actual extent and quality of disclosure on KPIs would appear to have fallen well short of expectations. Indeed, five of the top six items with the largest assessed information gap were KPIs. Although these disclosures are important for performance accountability, insufficient information is provided to enable stakeholders to assess efficiency and effectiveness of organisational activities.

(c) Financial performance items

With regards to financial items, Tables 3a and 3b show that just over half (23 of 40) of the listed items were assessed as having a ‘material’ information gap. Of the five items identified by the Delphi Panel as being ‘extremely important’ (importance score of 3.50 or greater) for reporting on performance (*‘auditor’s report’*; *‘accounting policies’*; *‘actual to budget comparison’*; *‘total fixed assets’*; and *‘current assets’*), only *‘actual to budget comparison’*, presented an information gap. This indicates that the items regarded by the Delphi Panel as key disclosures are well-reported. However, there is an information gap for all performance ratios and for most balance sheet items. Performance ratios are often included in the management discussion and analysis section of the annual report and are perceived by the Delphi Panel to be very important disclosures. The balance sheet items are mostly specific to local authorities and while market values of non-operating, community and infrastructure assets would be subjective, the Delphi Panel considered that users should be able to compare cost and market value of these assets.

<Insert Tables 3a and 3b here>

Although accountability for past performance, as depicted in the Statement of Revenue and Expenditures and Balance Sheet, is important, the provision of statements and other information mapping out future intentions was considered by the Delphi Panel to be equally important. Forward-looking information should link performance with strategic objectives.

However, and as shown in Table 4, extent and quality of disclosure of the local authorities' plans for the future is deficient and does not meet stakeholder expectations for this information.

<Insert Table 4 here>

Quality of Reporting by Individual Local Authorities

The weighted compound score for each local authority's annual report is shown in Table 5. The scores are obtained by aggregating the individual weighted compound score for each disclosure item and expressing this as a percentage of the total possible score that could be obtained.

<Insert Table 5>

From the data presented in Table 5 it is evident that the extent and quality of performance reporting by local authorities is low and can be best described as 'poor' to 'average' (i.e. average of 53.68 percent for the 3-year period 2007-2009, with individual scores ranging from 38.68 to 53.14 percent). Notably, and for the 2007-2009 period, the larger local authorities (City Councils) scored higher than their smaller local authority counterparts (Municipal Councils), however the difference between the mean scores for City Councils and Municipal Councils is not statistically significant ($t = 0.901$, $p = 0.371$).

By the 2007-2009 period, 13 of the 15 local authorities had improved the extent and quality of their 2005 performance reporting practices and disclosures. As a group, the improvement between the two periods was significant ($z = -2.830$, $p = 0.005$), however this was largely due to a more significant improvement in performance reporting by municipal councils ($z = -2.073$, $p = 0.038$) and less significant improvement by City Councils ($z = -1.826$, $p = 0.068$). What is less obvious is whether the overall improvement in performance reporting is the result of local authorities being cognisant of the changed performance reporting requirements imposed at the Federal public sector level or the result of a natural, evolutionary change over time.

Concluding comments

In an era when accountability has assumed an importance in the management of Malaysian local authorities (Tooley *et al.*, 2010), performance reporting provides a means for communicating information about local authorities which enables stakeholders to monitor and assess operational performance and goal accomplishment. Within the public accountability framework, the broad range of stakeholders has a "right to know about the condition and performance of the organisation under the accountant's charge" (Coy *et al.*, 2001, p.8). Under such a framework, local authorities are not only expected to recognise the need to report on performance, but are also expected to meet the informational needs of stakeholders. While it is generally accepted that those governing and managing public institutions, such as local authorities, should be called to account, the extent to which information that is disclosed in publicly accessible annual financial and service performance reports contributes to meeting accountability obligations has not been determined in a comprehensive way.

The aim of this study has been to apply a performance reporting index to the annual financial and service performance reports of selected Malaysian local authorities and, in so doing, determine a measure of the extent and quality of performance reporting as deemed desirable by a broad range of stakeholders. The results of this study show that many items of information, identified as important for disclosure, are not being adequately disclosed. As a result, many local authority performance reports 'underperformed' in rendering a sufficient account in the discharge of organisational public accountability. Thus, while stakeholders may have the right to know, the annual financial and service performance reports analysed in this study show that this right is in theory rather than practice and attention needs to be given to increasing accountability through disclosure of relevant information.

A transparent approach to reporting, consistent with accountability obligations, should cover a wide variety of issues including details of performance (Adams and Simnett, 2011). Although current reporting practice of Malaysian local authorities may be compliant with formal reporting requirements (the statutory requirement for the preparation of audited financial statements), the observed deficiencies in performance reporting applied to both financial and non-financial items. This highlights the concern of stakeholders for a more comprehensive array of performance disclosures than currently required and provided. Specific performance disclosures that local authorities should focus their attention on (e.g., 10 items with the largest information gap and a weighting of importance of 3 or higher) are, and in no particular order:

- effectiveness measures
- customer satisfaction measures
- productivity measures
- (classification of) revenue according to activities or services rendered
- gross expenditure according to service
- net expenditure according to service
- operational assets at market value
- infrastructure assets at cost
- infrastructure assets at market value
- future performance targets

Notably, eight of the items listed were not disclosed at all which highlights not only an opportunity for local authorities (and policy makers) to promote 'new' forms of performance disclosure, but to also examine the adequacies of current reporting practices - for example, *'revenue according to activities or services rendered'* would, currently, be reported in an aggregated form whereas stakeholders see the importance of disaggregated reporting.

The insights gained from this study may assist in the development of more comprehensive guidelines for Malaysian local authority annual financial and service performance reporting or, at a minimum, serve to raise the awareness of a broader spectrum of performance-related disclosures. Such consideration is a necessary response for the increased demands for local authorities to be more transparent in the discharge of their functional responsibilities in order to meet the information needs of a variety of stakeholders.

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Appendix 1: Illustration of Quality Criteria Assessment for ‘Statement of Objectives’

Annual Report disclosures

Local Authority 2 (LA2): Statement of Objectives:

- To develop a dynamic city council in order to enhance the quality of life and economic status of the community, consistent with the National Economics and Development Policy.
- To provide cleaning and maintenance services as follows:
 - Waste collection every three days.
 - Restoration of streams every ten days.
 - Lawn mowing every two weeks.
- To process building plan approvals within the specific time frame, provided that completed documents have been submitted.
 - Housing/industrial projects – one week.
 - House renovations – eight weeks.

Local Authority 13 (LA13): Statement of Objectives:

- To develop [LA13] as a premier, promising and peaceful growth centre.
- To provide efficient, adequate and friendly high quality services.

Source: Annual reports of LA2 (2005) and LA13 (2005)

Assessment:

Quality Criteria <i>Maximum Possible Score: 5</i>	1. Reference to principal activities/services. 2. Inclusion of mission, goals and performance targets in specific, concise, understandable and realistic terminology. 3. Measurable/quantitative dimensions with a given time frame. 4. Discussion of involvement in establishing the goals and objectives (for example, involvement of citizens, council members, management, employees). 5. Separate titled section.
LA2 Assessment <i>Score: 4 of 5 (4/5)</i>	No discussion of involvement of any parties in establishing the goals and objectives. All other criteria are met.
LA13 Assessment <i>Score: 1 of 5 (1/5)</i>	Although included in a separate, titled section, the information on objectives, mission and performance targets were insufficient to be able to assess the achievement, as quantitative dimensions were not included. No discussion of involvement of any parties in establishing the goals and objectives.
